

*BEST COPY*

*AVAILABLE*

**SOVIET AID PROGRAM TO UNDERDEVELOPED  
COUNTRIES OF THE FREE WORLD**

**INTRO:** Have often discussed this subject; would like to review course of this program briefly and make somewhat greater reference to aid program of the USSR within the entire Sino-Soviet Bloc which embraces Eastern Europe, Communist China, North Korea and North Viet Nam.

**I. What is the Soviet program in underdeveloped areas of Free World?**

1. Soviets have been engaged, along with other members of the Sino-Soviet Bloc, in program extending credits for economic and military development of certain Free World countries since early 1954.

2. Total credits extended by the entire Sino-Soviet Bloc amount to about \$1.6 billions at present of which about \$1 billion has been extended by the USSR, about \$700 millions by East European countries and about \$75 millions by Communist China. See Chart A. Includes UE totals.

a) Actual drawings on these extensions are about 1/3 of total (\$600 millions).

b) Obligations to specific projects which includes drawings run about \$1.2 billion.

3. Although Sino-Soviet Bloc has sought to enhance its world prestige or presence through this program, most credits highly concentrated on prime political targets (neutralist countries) including Yugoslavia, Egypt and Syria, India and Indonesia.

a) These 5 countries have received over 90 percent of total aid extended.

SECRET

4. Program has also included large scale movement of technical personnel both from Communist countries to Free World and vice versa. Movement offers ample opportunity for subversion although little apparent attempt by Soviets abroad to exercise opportunity.

5. Communist program has encountered difficulties in dealing with many projects even as it has had several successful projects. Many Communist undertakings have capitalized on small but locally unique and identifiable objects in public mind with considerable success. They have been plagued by projects which tax individual national ability to handle materials shipped or level of internal financing required to assure prompt allocation and completion of projects contemplated at time of credit extension.

6. Communist participation in credit extension in this area has probably increased pressure on US aid program even as it has added to the total sum made available to underdeveloped areas.

7. Other considerations of this program including its impact on the Sino-Soviet Bloc cannot be properly assessed without reference to a Soviet program of aid to its Communist allies and the international economic program within the Communist Orbit.

SOVIET AID TO OTHER MEMBERS  
OF THE COMMUNIST BLOC

I. What have the Soviets been doing?

1. The Soviets have had to weld their military and political dominance over other members of the Communist Bloc (Alliance) by an extensive aid program. Have engaged in a large program of credits, grants, and forgiveness of debt to other Communist nations which totals over \$10 billions for period 1946-57. See Chart A (also gives US totals).

2. Aid programs have provided military aid to strengthen and extend the Communist threat in Eastern Europe and Far East. In the Far East this aid has provided sufficient force to make possible Communist aggression in North Korea and North Vietnam and the threat of aggression in the Formosa Straits.

a) More than \$1.6 billions has been pumped into China in the form of military credits and an unknown amount but perhaps as much as \$500 millions given outright to China, North Korea, and North Vietnam. Over \$200 millions in such aid was put into Hungary before 1956.

3. Aid programs have pumped an additional \$3.7 billions in formal loans and grants (about 1/3 for the latter) to aid in the development and reorientation of the basic economic programs of these countries to Soviet style economics.

a) More than \$500 millions to Poland

b) Almost \$650 millions to East Germany

c) Almost \$450 millions to Communist China

d) Only in Czechoslovakia with a credit of about \$50 millions has an amount of less than \$150 millions been spent.

4. Almost \$3.25 billions have been extended to Eastern European satellites in the form of additional concessions. Take the form of reduced levies on East Germany for Russian troops in the occupation zone, \$1.6 billions; increased payments to Poland for raw materials and for transport and communication services, \$610 millions; about \$50 millions to Hungary in form of relief after the revolt.

5. Over \$2 billions in assets to which the USSR acquired title out of war reparations have been returned to national ownership in these countries.

- a) About \$1 billions in East Germany
- b) Over \$700 millions in Rumania
- c) Almost \$300 millions in Hungary

6. Finally the Soviets have cancelled certain debts incurred by other members of the Bloc to the tune of \$1.2 billions. (Not included in aid total.)

- a) In Rumania over \$700 millions
- b) Sizeable sum in Hungary, East Germany and Albania.

7. The Soviet Union has further welded together its influence in these areas by extensive reorientation of the trade patterns toward Communist trading community.

a) This trade has been important influence in widening the raw material base of the Bloc.

b) Has accelerated industrial development of many of the countries, particularly Communist China.

- 4 -

II. How have the Soviets proceeded on this program?

1. Soviet program of aid and trade to other Bloc countries has been characterized by three important stages. Failure to recognize these stages, or confusion of stages, has led to many different and frequently erroneous impressions in West.

A. First stage was one in which Soviets squeezed the new communist countries for every drop they could get out of them.

a) Moved captured plants and materials to the USSR in effort to hasten Soviet postwar reconstruction.

b) What couldn't be moved was operated under Soviet control and its output and profits siphoned off to USSR.

c) Soviets imposed low prices on goods they purchased and high prices on goods they sold.

d) This was Stalin period and period of postwar reconstruction.

2. The second stage was one in which the Soviet saw an empire but an empire in partial ruin and one which must be rebuilt to sustain itself to say nothing of serving as Communist model.

a) Soviets returned assets to original national ownership (mentioned before).

b) Soviets began to pump new credits and grants into faltering economies throughout Eastern Europe and the Far East.

c) Soviets sought to emphasize Communist cooperation in economic development and grant a larger measure of equality trade and other economic relationships. Organized Council for Mutual Economic Assistance (CEMA), the Soviet counterpart of the Marshall Plan to supervise this coordination.

a) Soviets sent large numbers industrial and economic experts to these countries to administer this aid--to plan and organize new production and trading arrangements.

2. The third (present) stage is one which the USSR looks for the achievement of long run influential position within its empire and abroad; one in which potential defections (Hungary and East Germany) must be eliminated and world respect won. It began perhaps in 1956.

a) It is represented by the loans to underdeveloped countries to which first made reference.

b) It is represented by the forgiveness of loan obligations of certain East European countries and the granting of concessions in others.

c) It has taken the form of continued shipments of machinery and materials under old credits and granting of additional new credits and grants.

d) Total outlays and concessions to other members of the Communist Bloc since early 1956 (largely in Eastern Europe) amount to over \$4.5 billions of the \$19 billion total since 1945. See Chart B.

e) The "cost of empire" has been expensive in terms of what the USSR could have expected in early post-Stalin period in which Soviets still were probably in a position of net advantage (post-war seizures from the empire versus post-war outlays for development of the empire).

III. Can the Soviet leadership and economy afford a program of this size and what does such program mean for Soviet economic growth?

1. The USSR would have to spend about \$1 billion annually or less than one percent of total annual production (what you call Gross National Product) to sustain this program.

a) The level of some of the loan forgiveness and concession items would not have to be maintained at 1956-57 levels.

2. Some of the credits will be serviced and repaid at least in part which may ease the burden.

3. Soviet economic growth has had to be somewhat reduced to bolster internal economic stability (witness revision of 1956-60 economic plans) to which the cost of this program would add but little.

4. Fundamentally, however, hard to believe Soviets will deny themselves additional thrust as well as protection offered by continental empire, additional opportunity to provide an evidence of Communist development, and additional possibilities of prestige or 'presence' offered by these activities.

IV. What do the Soviet people think of Soviet Empire and its cost?

1. Soviets herald the fact of empire without telling people its cost.

a) There has been dearth of reference to cost of aid program in the Soviet popular press, radio or TV.

b) Frequent reference to aid program is couched in terms to identify prestige, cost is treated lightly and associated with evidences that Soviet people are already receiving more goods as a result of program.



8. Contrast between popular knowledge of the cost of leadership in Communist and Western worlds again emphasizes the difference in relationship between the government and the governed.